

Washington State Auditor's Office
Report on Financial Statements and Federal Single Audit

City of Aberdeen
Grays Harbor County

Audit Period
January 1, 2001 through December 31, 2001

Report No. 64191

Issue Date
December 13, 2002



Washington _____
State Auditor

Brian Sonntag



Legislative Building
PO Box 40021
Olympia, Washington 98504-0021

Washington State Auditor
Brian Sonntag

(360) 902-0370
FAX (360) 753-0646
TDD Relay 1-800-833-6388
<http://www.sao.wa.gov/>

December 13, 2002

Mayor and Council Members
City of Aberdeen
Aberdeen, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Aberdeen's financial statements and compliance with federal laws and regulations.

We are issuing this report now in order to provide information on the City's financial condition.

In addition to this work, we look at other areas of our audit clients' operations for compliance with state laws and regulations. The results of that review will be included in our accountability audit report, which will be issued separately.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is stylized with large, flowing loops.

BRIAN SONNTAG, CGFM
STATE AUDITOR

Table of Contents

**City of Aberdeen
Grays Harbor County
January 1, 2001 through December 31, 2001**

| | |
|---|----|
| Federal Summary | 1 |
| Schedule of Federal Audit Findings | 2 |
| Independent Auditor's Report on Compliance and Internal Control over Financial Reporting in Accordance with Government Auditing Standards | 12 |
| Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 | 14 |
| Independent Auditor's Report on Financial Statements | 16 |
| Financial Statements | 18 |

Federal Summary

City of Aberdeen Grays Harbor County January 1, 2001 through December 31, 2001

The results of our audit of the City of Aberdeen are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

- We issued a qualified opinion on the City's financial statements.
- We noted no instances of noncompliance that were material to the financial statements of the City.
- We issued an unqualified opinion on the City's compliance with requirements applicable to its major federal programs.
- We reported findings, which are required to be disclosed under OMB Circular A-133.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.
- The City did not qualify as a low-risk auditee under OMB Circular A-133.
- The following were major programs during the period under audit:

| <u>CFDA No.</u> | <u>Program Title</u> |
|-----------------|---|
| 20.205 | U.S. Department of Transportation Highway Planning and Construction |
| 14.228 | U.S. HVD – Community Development Block Grant |

Schedule of Federal Audit Findings

City of Aberdeen Grays Harbor County January 1, 2001 through December 31, 2001

1. The City of Aberdeen did not comply with state bid laws.

Description of Condition

Our audit of the City of Aberdeen for 2001 found noncompliance with state bid laws in the management of three projects. In one of the projects, payment was made for services that were not within the scope of the original contracts. The additional work represented a separate undertaking subject to competitive bid requirements or laws governing the use of small works rosters. Additionally, the project involved federal funds, resulting in noncompliance with a federal grant requirement. A second project identified cost over-runs that were not approved by City officials through the use of change orders. In a third project, the City did not have documentation needed to support its use of a sole source contract for the purchase of asphalt.

Our review also noted that written contracts were not obtained for projects awarded using the small works roster.

The following projects were examined:

South Aberdeen/Cosmopolis Trailway

After completing a competitive bid process, a \$128,519 contract was awarded for construction of a portion of the South Aberdeen/Cosmopolis Trailway. After the bid was awarded, the City elected to expand the scope of the project by having additional portions of the trailway constructed and increasing the amount of parking available. The additional work was not specified in the original bid or contract and change orders were not completed for this work. The additional work increased the cost of the contract to \$176,244. The additional work should have been considered separate undertakings and bid through the small works roster.

The project was funded using \$154,759 from the U.S. Department of Transportation under the Highways Construction and Planning program (CFDA 20.205). Although the City obtained approval for the expanded trailway project from the State Department of Transportation, approval by the pass-through agency did not alleviate the City's responsibility for compliance with federal grant requirements. The federal procurement requirements stipulate that recipients of federal funds comply with state law.

Bishop Athletic Complex

Using the small works roster, the City selected a vendor to provide, haul and distribute sand and rock material for the development of ball fields at the Bishop Athletic Complex for a price of \$148,775. The scope of work identified in the original request for project quotes called for 10,000 cubic yards of sand material, however, 14,407 cubic yards were required to complete the project. Unforeseen, adverse soil conditions created the need for additional material to complete the ball field project. The extra material required for the project resulted in additional costs of \$68,617, bringing the total project cost to \$217,392. Change orders were not obtained to authorize the additional costs required to complete the Bishop Athletic Field ballpark project. In addition, the City did not establish a written contract with the vendor for the work performed.

Asphalt Overlay and Repairs

The City paid \$223,783 for various asphalt overlay and repair during 2001. The contract for this work was awarded to a local company, which the City claimed was a sole source provider. State law (RCW 39.04.280) requires that any municipality exempting a project from competitive bidding due to sole source must do so by resolution or by the terms of written policies adopted by the municipality. The City did not declare the vendor sole source by resolution or have written policies supporting the declaration of a sole source provider.

Small Works Roster

Our audit identified that the City does not obtain written contracts for projects awarded through use of the small works roster as required by state law (RCW 39.04.155). As detailed above, the City did not obtain a contract for the Bishop Athletic Complex ball field project. In addition, a \$59,309 project to install drainage for the complex was awarded using the small works roster without obtaining a written contract for the work.

Cause of Condition

After the South Aberdeen/Cosmopolis Trailway project had been awarded, the City found it had more funds available and increased the scope of the project without following appropriate bid procedures.

City personnel elected to complete the Bishop Athletic Complex ball field project without obtaining change orders or informing City officials of cost over-runs identified during the course of the project.

City personnel were also not fully aware of legal requirements for claiming a sole source vendor or that written contracts were required for projects awarded through use of the small works roster.

Effect of Condition

The City violated bid laws by changing the scope of the federally funded project after it was awarded. Additionally, the City circumvented bid laws by awarding a contract to a vendor as a sole source provider without supporting that claim.

The competitive bid process is intended to prevent fraud, collusion or favoritism in the awarding of public contracts and to enable a public entity to obtain the best work or supplies at the most reasonable prices. When the bidding requirements are not followed, the public is denied a fair opportunity to undertake public projects.

When estimated project costs are exceeded without appropriate approval, management is not given the opportunity to make informed decisions.

In addition, when written contracts are not obtained for projects awarded, the City does not have legal recourse in the event a vendor fails to provide the goods or services.

Recommendations

We recommend City management take the appropriate steps to ensure the City's future compliance with bidding requirements and federal grant requirements.

We further recommend the City use change orders and seek an appropriate level of management approval to ensure proper monitoring of public expenditures. This approval process should include a review of the change order description in comparison with the original contract specifications to determine if the additional work is in fact within the scope of the original contract or if a new contract is necessary.

We also recommend the City obtain written contracts for all public works projects awarded through either the small works roster or competitive bid process.

City's Response

South Aberdeen/Cosmopolis Trailway

The scope of the project as approved for funding by WSDOT included items that were not included in the original bid request. Based on the project cost estimates the staff determined that some items in the approved project scope would need to be eliminated or completed later by City crews due to insufficient grant funds. The actual bids received were substantially lower than estimated, therefore the staff decided to expand the scope of the project to include those items left out of the original bid. The project costs were increased to add additional trail work and parking lot construction. The majority of the additional work was performed by the contractor utilizing the unit prices for gravel and asphalt included in the original bid. The staff was of the opinion that since the unit prices had been competitively bid and the prices were reasonable the work could be performed more effectively at a lower cost by utilizing the contractor on site. The staff understands the position of the auditor and will strive for compliance on future contracts where there is the probability of substantial additional work by either addressing the issue of additional work in the original bid documents or treating the work as a separate project.

Bishop Athletic Complex

The soil conditions at the site resulted in substantially more settlement than anticipated and sand qualities had to be increased accordingly. When it was determined that the additional sand was needed the staff felt that because of the weather conditions rebidding the additional quality would delay the completion for the soccer fields a whole season and elected to ask the contractor to increase his work. The contractor agreed to provide the additional sand at the same unit cost as the initial bid. The staff understand the concern of the auditor about the \$200,000 limit. In the future a project selected under the small works roster will be kept below the \$200,000 limit unless mitigating circumstances justify special approval from the City Council.

At the time the staff did not feel that it was necessary to process a change order for the additional sand because it was basically an additional material purchase at the original bid amount. The staff understand the concern of the auditor and will use more formal documentation procedures in the future when additional work is performed.

Asphalt Overlay and Repairs

During 2001 the City did not bid for asphalt overlay and repair work but simply extended the contract for Lakeside from the previous year. The staff now has a better understanding of the procedures to take to exempt bidding in the case of a sole provider. The staff feels that Lakeside is a sole provider for the type of asphalt services that Aberdeen needs and will be discussing this issue with the City Attorney and City Council to get their input as to whether Lakeside will be treated as a sole provider in the future.

Small Works Roster

The City has not used contracts on small works roster projects when it was felt that the consequences of default by the contractor were significant. On most projects it was felt that the terms set forth in the request for quotations were sufficient to protect the interests of the City. The staff was not aware of any statutory requirement to have written contracts other than signed quotations and thought that it was discretionary. The staff is aware that research by the auditor showed that contracts are required. The staff has developed and is now using contracts.

Auditor's Remarks

We appreciate the City's response and their commitment to resolve the issues. We thank the City for its cooperation and assistance during the audit and look forward to reviewing the City's corrective action during our next audit.

Applicable Laws and Regulations

Title 49, Code of Federal Regulations, Section 18.36, (b)(1), states:

Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

Revised Code of Washington 39.04.280, Competitive bidding requirements--Exemptions.

This section provides uniform exemptions to competitive bidding requirements utilized by municipalities when awarding contracts for public works and contracts for purchases. The statutes governing a specific type of municipality may also include other exemptions from competitive bidding requirements. The purpose of this section is to supplement and not to limit the current powers of any municipality to provide exemptions from competitive bidding requirements.

(1) Competitive bidding requirements may be waived by the governing body of the municipality for:

- (a) Purchases that are clearly and legitimately limited to a single source of supply;
- (b) Purchases involving special facilities or market conditions;
- (c) Purchases in the event of an emergency;
- (d) Purchases of insurance or bonds; and
- (e) Public works in the event of an emergency.

(2)(a) The waiver of competitive bidding requirements under subsection (1) of this section may be by resolution or by the terms of written policies adopted by the municipality, at the option of the governing body of the municipality. If the governing body elects to waive competitive bidding requirements by the terms of written policies adopted by the municipality, immediately after the award of any contract, the contract and the factual basis for the exception must be recorded and open to public inspection.

If a resolution is adopted by a governing body to waive competitive bidding requirements under (b) of this subsection, the resolution must recite the factual basis for the exception. This subsection (2)(a) does not apply in the event of an emergency.

Revised Code of Washington 39.04.040, Work to be executed according to plans--Supplemental plans.

Whenever plans and specifications shall have been filed the work to be done shall be executed in accordance with such plans and specifications unless supplemental plans and specifications of the alterations to be made therein shall be made and filed in the office where the original plans and specifications are filed.

In the event that the probable cost of executing such work in accordance with the supplemental plans and specifications shall be increased or decreased from the estimated cost as shown by the original estimate to an amount in excess of ten percent of such estimate, then a supplemental estimate shall be made of the increased or decreased cost of executing the work in accordance with the supplemental plans and specifications and filed in the office where the original estimate is filed.

[1923 c 183 § 3; RRS § 10322-3.]

Revised Code of Washington 39.04.010, Definitions.

The term contract shall mean a contract in writing for the execution of public work for a fixed or determinable amount duly awarded after advertisement and competitive bid. However, a contract which is awarded from a small works roster need not be advertised.

Revised Code of Washington 39.04.155 Small works roster contract procedures--Limited public works process.

(1) This section provides uniform small works roster provisions to award contracts for construction, building, renovation, remodeling, alteration, repair, or improvement of real property that may be used by state agencies and by any local government that is expressly authorized to use these provisions. These provisions may be used in lieu of other procedures to award contracts for such work with an estimated cost of two hundred thousand dollars or less. The small works roster process includes the limited public works process authorized under subsection (3) of this section and any local government authorized to award contracts using the small works roster process under this section may award contracts using the limited public works process under subsection (3) of this section.

In an Attorney General Office memo, dated June 2, 1995, an Assistant Attorney General states:

A governmental entity's authority to order changes to a contract is limited to changes within the general scope of the contract. The scope of the contract is generally understood as the area of performance that the parties agreed to when they entered into the contract.

Additionally, the memo states:

Not all amendments to competitively bid contract are prohibited; only those regarded as material. In determining whether an amendment is material, courts have found the following factors to be of importance:

- (1) the legitimacy of the reasons for the change
- (2) whether the reasons for the change were unforeseen at the time the contract was made;
- (3) the timing of the change;
- (4) whether the contract contains clauses authorizing modifications;
- (5) the extent of the change relative to the original contract.

Schedule of Federal Audit Findings

City of Aberdeen Grays Harbor County January 1, 2001 through December 31, 2001

2. **An Auditing Officer certification is not completed for City expenditures as required by state law.**

Background

The City processed over \$27 million in expenditures, including approximately \$642,000 from federal grants during fiscal year 2001. The 1999 and 2000 audits identified the City's noncompliance with a state law requiring an Auditing Officer certification be completed for all City expenditures prior to their payment. Auditor certification is required to ensure all claims are just and due claims owed by the City. We advised the City to comply with this law.

Description of Condition

The 2001 audit of the City again identified that the Auditing Officer did not certify the claims owed by the City as required by state law (RCW 42.24.080) and has not completed the certification to date in 2002. The law further states that no claim shall be paid unless authentication and certification has occurred.

City management has not fulfilled its responsibility to ensure that the system of auditing and certifying vouchers is operating in a manner to provide the greatest possible protection of public resources and compliance with state law.

In addition, the federal procurement requirements stipulate that recipients of federal funds comply with state law. Federal grant recipients also are required to ensure a system of adequate internal controls is in place to ensure compliance with federal requirements. The 2001 audit of the U.S. Department of Transportation Highway Planning and Construction grant (CFDA 20.205) found that the City was not in compliance with federal procurement requirements related to this grant.

Cause of Condition

City management is aware of the legal requirements, however the Auditing Officer continues to refuse to certify the claims. The City Council has not taken action to address the issue.

Effect of Condition

Certification by the Auditing Officer signifies that internal controls over the purchasing process are adequate to detect misuse of public funds. By refusing to complete the certification, the Auditing Officer indicates a lack of reliance on the City's control system. Not certifying claims does not alleviate City management's responsibility to ensure controls are in place to adequately safeguard public funds from misuse, abuse or loss. By not establishing and following an adequate system of internal controls and complying with state laws, the City also places federal grant awards at risk, which could result in questioned costs or affect future federal funding.

Recommendations

We recommend the City comply with state law and ensure the Auditing Officer certification is completed prior to the payment of all claims against the City.

We further recommend the City Council ensure that a system of auditing and certifying vouchers is operating in a manner to provide the greatest possible protection for public funds.

City's Response

In the future, the City's Auditing Officer will sign the following certification on City vouchers:

I, the undersigned, to hereby certify under penalty of perjury that the materials have been furnished, the services rendered or the labor performed as described herein and that the claims are a just and unpaid obligation against the City of Aberdeen to the best of my knowledge, and that I am authorized to authenticate and certify to said claims.

Auditor's Remarks

We appreciate the City's willingness to address and resolve this long-standing issue. We thank the City for its cooperation and assistance during the audit and look forward to reviewing the Auditing Officer's certification process during our next audit.

Applicable Laws and Regulations

Title 49, Code of Federal Regulations, Section 18.36, (b)(1), states:

Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

Revised Code of Washington (RCW) 42.24.080 Municipal corporations and political subdivisions--Claims against for contractual purposes--Auditing and payment--Forms--Authentication and certification.

All claims presented against any county, city, district or other municipal corporation or political subdivision by persons furnishing materials, rendering services or performing labor, or for any other contractual purpose, shall be audited, before payment, by an auditing officer elected or appointed pursuant to statute or, in the absence of statute, an appropriate charter provision, ordinance or resolution of the municipal corporation or political subdivision. Such claims shall be prepared for audit and payment on a form and in the manner prescribed by the state auditor. The form shall provide for the authentication and certification by such auditing officer that the materials have been furnished, the services rendered or the labor performed as described, and that the claim is a just, due and unpaid obligation against the municipal corporation or political subdivision; and no claim shall be paid without such authentication and certification: PROVIDED, That the certificates as to claims of officers and employees of a county, city, district or other municipal corporation or political subdivision, for services rendered, shall be made by the person charged with the duty of preparing and submitting vouchers for the payment of services, and he or she shall certify that the claim is just, true and unpaid, which certificate shall be part of the voucher.

[1995 c 301 § 72; 1965 c 116 § 1.]

Budgeting, Accounting, and Reporting System (BARS) Chapter 3. Expenditures And Disbursements, Section E. Voucher Certification And Approval

All claims against a municipality must be preaudited by the auditing officer of the municipality or his/her delegate. In addition, all claims must be certified by the auditing officer. This certification may be made on each individual claim voucher or, subject to the acceptance and approval of the municipal legislative body, a blanket voucher certification may be used so long as it indicates the particular vouchers so certified. The use of a blanket certification in no way relieves the auditing officer of his/her responsibility and liability for each individual voucher so certified. The certification must be signed and dated by the auditing officer or his/her delegate.

Schedule of Federal Audit Findings

City of Aberdeen Grays Harbor County January 1, 2001 through December 31, 2001

3. The City did not follow federal subrecipient monitoring requirements for a community Development Block Grant.

Background

The City of Aberdeen was awarded a Community Development Block Grant by the state Department of Community, Trade and Economic Development and the U.S. Department of Housing and Urban Development (HUD). The purpose of this grant was to provide loans for housing rehabilitation to low- and moderate-income homeowners/homebuyers and to provide financial counseling for low- and moderate-income households within the cities of Aberdeen, Cosmopolis and Hoquiam.

The City contracts the administration of this grant to the Aberdeen Neighborhood Housing Services, Inc., a non-profit organization. The organization is the subrecipient of the grant and in 2001 received \$159,233.

In 1998, we reported a finding that stated the City did not have a system in place to ensure compliance with subrecipient monitoring for this grant. After receiving this finding, the City developed procedures to ensure compliance. It was to perform two on-site visits per year to ensure the organization was in compliance with federal grant requirements. Audits performed for 1999 and 2000 found that the City was following these procedures.

Description of Condition

Although the City had a system in place to monitor the subrecipient's compliance with grant requirements, we found no documentation that two on-site visits were performed in fiscal year 2001. The City's monitoring activity was not sufficient to determine the subrecipient's compliance with federal administrative requirements.

Cause of Condition

Management did not follow through with the subrecipient monitoring procedures to ensure that on-site compliance reviews were completed as required.

Effect of Condition

Inadequate monitoring of subrecipients increases the risk that grant funds could be used for unallowable activities and that the subrecipient is not complying with grant requirements. It also may jeopardize the City's eligibility for future federal grants.

Recommendations

We recommend the City follow federal regulations for subrecipient monitoring and its own procedures by performing twice-yearly audits of the block grant to ensure the subrecipient's compliance with relevant grant requirements as outlined in the Community Development Block Grant Management Handbook.

City's Response

The City will be in compliance for 2002.

Auditor's Remarks

We thank the City for its cooperation and assistance during the audit. We will review the City's corrective action during our next audit.

Applicable Laws and Regulations

CDBG Management Handbook section 18 – Subrecipient Selection and Agreement Requirements states in part:

Monitoring Subrecipient Performance

If a grantee chooses to turn part of the administration of its CDBG program over to a subrecipient, it must have a system in place to determine the subrecipient's compliance with relevant CDBG requirements.

The grantee must track the subrecipient's progress through regular status reports or meetings. Reimbursements to the subrecipient must reflect the timely performance in accomplishing these measurable objectives and be supported by documentation of eligible expenses.

Record Keeping and Reporting

The grantee must maintain documentation of the subrecipient's performance and compliance with CDBG requirements.

Independent Auditor's Report on Compliance and Internal Control over Financial Reporting in Accordance with Government Auditing Standards

**City of Aberdeen
Grays Harbor County
January 1, 2001 through December 31, 2001**

Mayor and Council Members
City of Aberdeen
Aberdeen, Washington

We have audited the financial statements of the City of Aberdeen, Grays Harbor County, Washington, as of and for the year ended December 31, 2001, and have issued our report thereon dated November 22, 2002.

As described in our report on the financial statements, our opinion is qualified because the City declined to present a statement of cash flows for the year ended December 31, 2001. Presentation of such statements summarizing the City's operating, investing and financing activities is required by generally accepted accounting principles (GAAP).

The City also declined to present a statement of plan net assets of its Pension Trust Fund for the year ended December 31, 2001. Presentation of such statements summarizing the City's changes in plan net assets of its Pension Trust Fund is required by GAAP.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatements, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our responsibility is to examine, on a test basis, evidence about the City's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the City and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

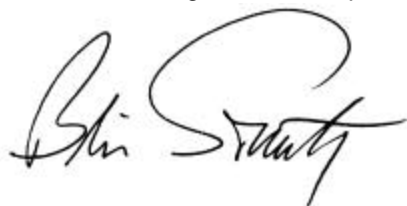
The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the accompanying Schedule of Federal Audit Findings as Findings 1, 2 and 3.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Mayor and Council Members, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", is positioned above the printed name and title.

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 22, 2002

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

**City of Aberdeen
Grays Harbor County
January 1, 2001 through December 31, 2001**

Mayor and Council Members
City of Aberdeen
Aberdeen, Washington

COMPLIANCE

We have audited the compliance of the City of Aberdeen, Grays Harbor County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2001. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Federal Audit Findings as Findings 1, 2 and 3.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Mayor and Council Members, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", written in a cursive style.

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 22, 2002

Independent Auditor's Report on Financial Statements

City of Aberdeen Grays Harbor County January 1, 2001 through December 31, 2001

Mayor and Council Members
City of Aberdeen
Aberdeen, Washington

We have audited the accompanying balance sheet of the City of Aberdeen, Grays Harbor County, Washington, as of December 31, 2001, and the related statements of revenues, expenditures and changes in fund balance for the year then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The City of Aberdeen declined to present a statement of cash flows for year ended December 31, 2001. Presentation of such statements summarizing the City's operating, investing and financing activities is required by generally accepted accounting principles (GAAP).

The City also declined to present a statement of plan net assets of its Pension Trust Fund for the year ended December 31, 2001. Presentation of such statements summarizing the City's changes in plan net assets of its Pension Trust Fund is required by GAAP.

In our opinion, except that the omission of a statement of cash flows and statement of plan net assets that results in an incomplete presentation as explained in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Aberdeen, at December 31, 2001, and the results of its operations and cash flows of its proprietary fund types and similar trust funds for the fiscal year ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2002, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of State and

Local Financial Assistance is also presented for purposes of additional analysis. These schedules are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 22, 2002

Financial Statements

**City of Aberdeen
Grays Harbor County
January 1, 2001 through December 31, 2001**

FINANCIAL STATEMENTS

Combined Balance Sheet – All Fund Types and Account Groups – 2001
Combined Statement of Revenues, Expenditures and Changes in Fund Balance – All
 Governmental Fund Types and Expendable Trust Funds – 2001
Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and
 Actual – All Governmental Fund Types – 2001
Combined Statement of Revenues, Expenses and Changes in Fund Equity – Proprietary Fund
 Types and Similar Trust Funds – 2001
Notes to the Financial Statements – 2001

ADDITIONAL INFORMATION

Schedule of Expenditures of Federal Awards – 2001
Schedule of State and Local Financial Assistance – 2001
Notes to the Schedule of Expenditures of Federal Awards and State and Local Financial
 Assistance – 2001